SCULATI
Wealth Management, LLC.

Phone: 248-325-9947
Fax: 248-325-9952
Toll Free: 855-273-8620
sculatiwealth.com

7457 Franklin Road, Suite 222 • Bloomfield Hills, MI 48301

January 11, 2019

Happy New Year! I hope this letter finds you looking back on a relaxing holiday with family and friends.

I only write four letters per year, and my rule is that the letter be kept to one page. When you hear from me, I want you to know it's important and concise. You are inundated with information every day, and I try my best to not end up on the "to be reviewed later" pile. There is so much to speak to right now that sticking to my one-page rule is impossible.

Over the pages ahead, I will answer the following questions:

- What is going on in the stock market, and why is it happening?
- How does it affect the likely success of my financial plan, and should we change anything?
- What 2018 tax information should I expect and when?
- How is the growth of Sculati Wealth Management working for me?

What is going on in the stock market and why is it happening?

The only positive things I can say about 2018 in the investment world are:

1.) We had a good year right up until December and didn't have to suffer through months of pain.
2.) Those subject to Required Mandatory Distributions in IRAs will take out less in 2019.

Otherwise, there really isn't much that can be celebrated about the year just ended.

I take personal responsibility on an emotional level when we go through periods like this. Even though I know it is out of my control, I still hate it. You hire us to protect and guide you. When we have turbulence in the market, I feel we have failed at our responsibility. This is the emotional part of the investment process and should largely be ignored. What matters are the facts. When looked at unemotionally and rationally, there are more things to be optimistic about than the market would lead you to believe.

When talking with a client recently, I asked him how he felt about the market. He told me it was "cringe worthy", and I could not think of a better term to use. December and the beginning of 2019 have been that and more. What has brought on this severe correction? Two words: The Fed.

In October, the Chairman of the Federal Reserve, Jerome Powell, said that interest rates would be rising on a set schedule, regardless of what the data may indicate about the economy. In addition, the Fed is reducing the size of its balance sheet which is also an indirect increase in interest rates. So, balance sheet reduction and direct increases created a fear in the market that if rates go up too much or too suddenly, it could take the economy into recession. Combine this with slowing growth rates globally and we have a major stock market sell off.

What the market *wants* to hear is that the Fed will evaluate the data on an ongoing basis and be flexible and sensitive to any indication that they should stay put and not raise rates any further. That was the approach that Janet Yellen always took. When Chairman Powell said what he did, it really unnerved the market. Of course, he figured this out and started listening. On January 4, 2018, he indicated the Fed would be flexible and evaluate the data on an ongoing basis moving forward. This sent the Dow Jones Industrial Average up 746 points that day; a bounce on a 660 point decline the day before.

These moves in the market must be put into perspective. When the Dow was at 6,500, the percentage change of these moves would have been massive. Now, with the Dow at 23,944, and even at its high of 26,951.81, these moves are much smaller as a percentage of the index.

Unemployment is exceptionally low, earnings are strong, the consumer is strong, wages are rising, and we do not have a mortgage or banking crisis. Things are very good economically in the U.S. The government is shut down, and we have a trade war with China. Not good. Both things will be resolved and when they are, you do not want to be out of this market. Being out of the market, in general, has been a bad idea for about 300 years.

This leads me to my final point regarding all the above: **Everything that we are experiencing is part of the financial plan we created for you when we began.**

How does it affect the likely success of my financial plan, and should we change anything?

Human nature tends to evaluate the success of the plan by measuring from the most recent high, rather than where we began. For those that began 10 years ago, things look good. For those that began in the last year, things look dismal. The good news is that by having this pullback now, it sets us up for a favorable three to five years ahead. Even if we have a recession, this is exactly what we knew would happen along the way, and it is accounted for in the assumptions.

Recessions are as much a part of the economic cycle as expansions and happen infrequently in comparison. Dividends and interest are paid regardless of the level of the market, and those two things make up far more of total return than capital appreciation over the long term. We will survive this, and our job is to get you through it. That is what we come to work every day to do.

What is the best way to respond to this market decline? Do not deviate from the plan. Look for investment opportunities that may have been over priced before and may be attractive now. Trade from items that may have less recovery potential into opportunities that will roar back as the storm passes. Be greedy when others are fearful and fearful when others are greedy. In order to buy low and sell high, you must be able to run into the burning building when everyone else is running away. It never feels good at the time, but it always works. If nothing else, remember that this is a long-term game and in years from now, you will not even remember this period.

What 2018 tax information should I expect and when?

Schwab and TD Ameritrade will be issuing everything you need for your tax return by the end of February, as the law requires. We will no longer be providing our own reports as they are redundant and can create confusion. We will have access to this information as it becomes available, and we are happy to provide it to you upon request.

How is the growth of Sculati Wealth Management working for me?

Since we began in 2012 with nearly $30 million in assets, I have always believed that investing in the firm is one of the highest priorities. We are always seeking the best in our ability to serve you. Now that we are managing over $120 million in assets, we have added personnel and invested in additional infrastructure.

The team was rounded out with the hiring of Ryan Knabusch (Kuh-Nay-Bush) on November 1, 2018. Ryan started in the finance industry at Monroe Bank & Trust in 2013 as a credit analyst with the Commercial Credit group. Just over a year later, Ryan joined the Retirement Plan Consulting Team at Plante Moran. After three and a half years consulting with clients on their employer-sponsored retirement plans, Ryan joined Sculati Wealth Management. Ryan received the Certified Plan Fiduciary Advisor (CPFA) designation in 2018.

Ryan has a B.B.A in Marketing from Eastern Michigan University, and a M.B.A. in Finance from The University of Toledo. Ryan, his wife Anna, and son, Colin live in Plymouth, Michigan.

Ryan will be developing his own client base, assisting me in making sure that you are contacted frequently, and ensuring your account has an additional set of eyes reviewing it. **If you have not had a formal review in the last six months, expect a call from Ryan on my behalf to schedule a meeting.** Considering the recent market volatility, it is a terrific time to review your Investment Management Agreement, Investment Policy Statement and your Financial Plan.

<u>Current Roster</u>

David J. Sculati – President

Nathan A. Hawrot – Certified Financial Planner™

Alan A. Gildenberg – Senior Wealth Manager

Ryan W. Knabusch – Financial Advisor

Shelley A. Meltzer – Client Service Coordinator & Office Manager

In addition to hiring Alan, Shelley & Ryan, we have furthered our investment with Morningstar and acquired a new CRM (Contact Relationship Manager) and trading software (TRX) that we began using in the fourth quarter of 2018. Together, these bring a much higher level of efficiency and more time to focus on you.

We are also updating the web site to make it current and useful to you. We want to make the site one you will visit and find useful on an ongoing basis. This process will take eight to ten weeks, and I will let you know when it is unveiled.

Please know that you have a team of five people that come to work every day grateful for the opportunity you give us to do our best for you. We are here overseeing your Financial Plan, your investment portfolio and doing what needs to be done to insure your success. Let us know if there is anything specific you need. We look forward to talking with you soon and making sure that we are on track and that you are comfortable and confident about your future.

David J. Sculati
President
Accredited Investment Fiduciary®